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FIBRE PRODUCTS OF CANADA LIMITED

FINANCIAL STATEMENTS, 1969

DIRECTORS

Gerald M. Banks

Robert Bellamy

Michel Bourbonnais

Hugh L. Coulson

James E. Houston

Fred McMahon

Donald M. McPhail

Gurston I. Rosenfeld

Sinclair M. Stevens

OFFICERS

Donald M. McPhail, *Chairman*

Gerald M. Banks, *President*

Lionel Colman, C.A., *Treasurer*

Noreen M. Stevens, *Secretary*

FINANCIAL HIGHLIGHTS

	1969	1968
Revenues	\$2,609,698	\$1,266,722
Net income	\$ 140,959	\$ 44,632
Earnings per share21	.17
Average number of common shares outstanding	643,963	231,284

Management's Report to Shareholders:

The events of the year under review have been probably the most significant in the history of your Company and expectations for the future may now be regarded as more promising than ever.

The acquisition of Comtech Group Limited and its subsidiaries has brought the Company into the dynamic and future-oriented field of data processing. The increasing market response to Comtech's services indicates encouraging prospects of growth both in data centre operations and in the franchising of computer and sales systems.

Since it has been felt that the present name was too specific to adequately convey the Company's expanded activities, the directors are now asking shareholders to approve the change of its corporate name to Comtech Group International Limited. In anticipation of the endorsement of this change, your directors have decided to postpone the distribution of the detailed annual report until after the shareholders' meeting. In this way, it is hoped, the new corporate name will be introduced in the initial report on the Company's first year of consolidated operations.

From the financial statements included in this report, you will note that combined automotive and computer revenues for the year ended June 30, 1969 amounted to \$2,610,000 as compared to \$1,267,000 for the previous year.

Net income after extraordinary items rose to \$140,959 or 21¢ per common share for the current year compared with \$44,632 or 17¢ in 1968. In both years the extraordinary items consisted primarily of a reduction of income taxes due to application of tax losses carried forward. The Company still has unused losses available for future years.

The increase in per share earnings is particularly significant in view of the fact that the average number of outstanding common shares increased from 231,284 in 1968 to 643,963 in 1969.

Your attention is also drawn to what the directors consider to be a conservative approach to reporting of franchising income. The notes to the financial statements show that in addition to the \$107,000 (U.S.) cash received to date from the sale of two regional franchises in the United States, only \$81,000 (U.S.) was taken into income from a total of \$953,000 (U.S.) of promissory notes maturing in both cases in equal semi-annual instalments over the next ten years. Despite this treatment of income, the Company showed as fully expensed in the same year the total of \$94,000 of initial chartering expenses. The benefits of the expenditure incurred last year should be reflected in future years' profits of the organization.

Franchise operations centered in Boston and Atlanta are making satisfactory progress and there is every reason to anticipate successful future performances. It is the opinion of your management that, with further evidence of satisfactory performance by these and future franchises, the Company will be justified in reporting a somewhat larger portion of franchise sales as current income.

Your management is currently concentrating on the further expansion of sales now that the prolonged distraction and expense related to the final consolidation of Comtech with the Company has ended. Careful attention is being focused on Comtech's overhead structure and substantial economies have already been effected.

The directors are proud of the co-operation shown by all members of the organization and take this opportunity of expressing sincere appreciation of their efforts.

On behalf of the board of directors,

DONALD M. McPHAIL,
Chairman

GERALD M. BANKS,
President.

FIBRE PRODUCTS OF CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED JUNE 30, 1969

	1969	1968 (Note 1)
REVENUES		
Manufacturing sales	\$1,621,565	\$1,197,805
Computer services	786,100	68,917
Initial chartering fees (not including \$872,000 U.S. deferred — Note 3)	202,033	—
	<u>\$2,609,698</u>	<u>\$1,266,722</u>
COST AND EXPENSES		
Manufacturing cost of sales	1,413,811	1,037,293
Data processing expenses	577,300	48,665
Selling, general and administrative expenses	257,801	75,543
Initial chartering costs	94,521	—
Interest on long-term debt	40,564	21,906
Depreciation (Note 5)	68,402	28,200
	<u>2,452,399</u>	<u>1,211,607</u>
Income before taxes	157,299	55,115
Provision for income taxes (Note 10)	51,740	15,401
NET INCOME BEFORE EXTRAORDINARY ITEMS	<u>105,559</u>	<u>39,714</u>
EXTRAORDINARY ITEMS		
Reduction of income taxes due to application of tax loss carry forwards (Note 10)	45,400	13,200
Loss on disposal of fixed assets	—	(6,616)
Severance pay allowance	(10,000)	(1,666)
	<u>35,400</u>	<u>4,918</u>
NET INCOME	<u>\$ 140,959</u>	<u>\$ 44,632</u>
PER COMMON SHARE		
Net income before extraordinary items16	.15
Extraordinary items05	.02
Net income	<u>.21</u>	<u>.17</u>
Average number of shares outstanding *	643,963	231,284

* Computed giving retroactive effect to the changes in issued capital (Note 2 (b)) and after allowance for preference dividends.

FIBRE PRODUCTS OF CANADA LIMITED AND SUBSIDIARIES

ASSETS

	<u>1969</u>	<u>1968</u>
CURRENT ASSETS		
Cash and bank deposit receipts	\$ 296,879	\$ 409,778
Accounts receivable	251,270	209,531
Notes receivable (Note 3)	57,983	—
Inventories, at cost	179,138	133,934
Prepayments and advances	42,403	14,493
	<u>827,673</u>	<u>767,736</u>
INVESTMENTS		
Notes receivable (Note 3)	28,991	
Associated company (Note 4)	105,543	
	<u>134,534</u>	
FIXED ASSETS (Note 5)	<u>1,581,021</u>	<u>1,027,706</u>
INTANGIBLES AND DEFERRED CHARGES		
Premiums incurred on acquisition of subsidiary companies (Note 6)	240,626	41,312
Deferred charges (Note 7)	184,337	60,494
Patents, at cost	12,356	12,356
	<u>437,319</u>	<u>114,162</u>
	<u>\$2,980,547</u>	<u>\$1,909,604</u>

AUDITORS' REPORT

To the Shareholders of
Fibre Products of Canada Limited

We have examined the consolidated balance sheet of Fibre Products of Canada Limited as at June 30, 1969 and the consolidated statements of income, shareholders' equity and source and application of funds for the year then ended. Our examination of the financial statements of Fibre Products of Canada Limited included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the consolidated financial statements of the subsidiaries.

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1969

LIABILITIES

	1969	1968
CURRENT LIABILITIES		
Bank indebtedness (Note 8)	\$ 24,407	\$ 134,166
Accounts payable and accrued liabilities	376,046	209,161
Income taxes	10,828	8,684
Current maturities on long-term debt	169,773	59,556
	<u>581,054</u>	<u>411,567</u>
LONG-TERM DEBT (Note 9)	691,313	862,397
DEFERRED INCOME TAXES (Note 10)	4,847	1,158
	<u>1,277,214</u>	<u>1,275,122</u>
SHAREHOLDERS' EQUITY (per statement)		
ISSUED CAPITAL		
4,490 5% Preference shares	44,900	59,250
55,482 3% Preference shares	55,482	198,000
694,263 Common shares	694,263	627,487
	<u>794,645</u>	<u>884,737</u>
CONTRIBUTED SURPLUS	672,773	30,420
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST (Note 5)	173,181	175,981
RETAINED EARNINGS (DEFICIT)	62,734	(456,656)
	<u>1,703,333</u>	<u>634,482</u>
	<u>\$2,980,547</u>	<u>\$1,909,604</u>

Signed on behalf of the Board:

DONALD M. McPHAIL, Director

GERALD BANKS, Director

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1969 and the results of their operations, changes in shareholders' equity and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH,

Chartered Accountants.

September 9, 1969

FIBRE PRODUCTS OF CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Note 2)
FOR THE YEAR ENDED JUNE 30, 1969

BALANCES AS AT JUNE 30, 1968 (previously reported)	
Prior years' adjustments	
Comtech — shareholders' equity June 30, 1968	
As restated	
Subsequent prior years' adjustments	
 Issue of 9,000 common shares on exercise of stock options	
Alteration of common shares to \$1. par value	
Issue of 60,000 common shares on conversion of long-term debt and preference shares	
Issue of 535,263 common shares in exchange for common shares of Comtech	
Less Comtech share capital recorded above	
Expenses relative to the acquisition of Comtech	
Net income	
Transfer of appraisal increase (Note 5)	
Transfer of contributed surplus to deficit (Note 2 (c))	
BALANCES AS AT JUNE 30, 1969	

First Preference Shares (\$10. par value)	Second Preference Shares (\$1. par value)	Common Shares	Contributed Surplus	Appraisal Increase	Retained Earnings (Deficit)
\$ 59,250	\$ 198,000	\$ 126,000	\$ 30,420	\$ 178,781	\$ (456,042)
				(2,800)	(7,325)
		501,487			6,711
		627,487		175,981	(456,656)
					95,217
					(361,439)
		22,500			
		(49,500)	49,500		
(14,350)	(142,518)	60,000	493,868		
		535,263	413,544		
		(501,487)			
			(34,145)		
					140,959
				(2,800)	2,800
			(280,414)		280,414
\$ 44,900	\$ 55,482	\$ 694,263	\$ 672,773	\$ 173,181	\$ 62,734

FIBRE PRODUCTS OF CANADA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
SEGREGATED BY DIVISION
FOR THE YEAR ENDED JUNE 30, 1969

	1969	
SOURCE OF FUNDS	Comtech	Fibre
Operations		
Net income	\$ 56,023	\$ 84,936
Charges not requiring funds		
Depreciation	40,023	28,379
Amortization	26,688	3,667
Credits not providing funds		
Deferred income taxes	(1,641)	
Initial chartering fees, non-current	(28,991)	
	92,102	116,982
Issue of common shares for cash		
On exercise of stock options	200,000	22,500
Other	54,000	
Issue of common shares in exchange		
For shares of subsidiaries	135,000	
For shares and notes of associated company ..	58,320	
Loan from Adjustment Assistance Board		
Increase in notes payable on computer equipment ..	381,591	
Miscellaneous items, net	(2,072)	2,063
	918,941	141,545
APPLICATION OF FUNDS		
Investment in shares of subsidiaries, less working capital at dates of acquisition	236,915	34,145
Investment in associated company	105,543	
Purchase of computer equipment	552,424	
Purchase of other fixed assets, net	39,084	21,260
Organization expenses	62,461	
Development of package programs	35,750	
Sales development	13,753	
Computer conversion costs	19,635	
Reduction of long-term debt		49,066
	1,065,565	104,471
INCREASE (DECREASE) IN WORKING CAPITAL	(146,624)	37,074
Working capital (deficiency) at beginning of year	350,724	2,888
WORKING CAPITAL AT END OF YEAR	\$ 204,100	\$ 39,962

	1968		
Total	Comtech	Fibre	Total
\$ 140,959	\$ 6,711	\$ 37,921	\$ 44,632
68,402	672	27,528	28,200
30,355	1,666	4,000	5,666
(1,641)	383		383
(28,991)			
209,084	9,432	69,449	78,881
222,500			
54,000	425,887		425,887
135,000	75,600		75,600
58,320		200,000	200,000
381,591	93,389		93,389
(9)	(2,347)	4,922	2,575
1,060,486	601,961	274,371	876,332
271,060	90,907		90,907
105,543			
552,424	121,998		121,998
60,344	750	43,627	44,377
62,461	25,576		25,576
35,750	12,006		12,006
13,753			
19,635			
49,066		44,092	44,092
1,170,036	251,237	87,719	338,956
(109,550)	350,724	186,652	537,376
353,612	—	(183,764)	(183,764)
\$ 244,062	\$ 350,724	\$ 2,888	\$ 353,612

FIBRE PRODUCTS OF CANADA LIMITED AND SUBSIDIARIES

NOTES TO 1969 CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The Company acquired all of the shares of Comtech Group Limited (Comtech) in June 1969 pursuant to its share exchange offer. This acquisition has been treated as a "pooling of interests" for accounting purposes and accordingly the statement of income includes the operations of Comtech and its subsidiaries for the entire 1969 year. The Company's 1968 financial statements have been restated to include the consolidated accounts of Comtech and its subsidiaries.

Since the acquisition of subsidiaries by Comtech were "purchases", the profits of its subsidiaries are reflected from the dates of acquisition only.

Comtech was incorporated on March 20, 1968 and therefore the 1968 figures include only its first three months of operation.

<u>Wholly-owned subsidiaries of Comtech</u>	<u>Date Acquired</u>
Commercial & Technical Computer Services (Ontario) Limited	March, 1968
Administration & Finance Inc.	August, 1968
Charters Limited (a Jamaican subsidiary)	October, 1968

2. SHAREHOLDERS' EQUITY

(a) *Authorized Capital*

During the year ended June 30, 1969 the authorized preference shares were reduced by conversion of certain of these shares (Note 2(b)) into common shares and common shares were changed to \$1. par value and increased by supplementary letters patent. As at June 30, 1969, authorized share capital consisted of:

14,490 5% First preference shares, \$10. par value, cumulative, redeemable at \$10.20 a share.	
157,482 3% Second preference shares, \$1. par value, non-cumulative, redeemable at par	
2,000,000 Common shares, \$1. par value.	

(b) *Issued Capital*

Pursuant to an agreement dated February 24, 1969, the following debt and preference shares were converted to 60,000 common shares, par value, \$1. each:

\$ 310,000 7% Mortgage bonds (less unamortized discount of \$13,000)	\$ 297,000
\$ 100,000 6% Note payable to shareholders	100,000
1,435 First preference shares	14,350
142,518 Second preference shares	142,518
	<u>\$ 553,868</u>

The excess of the \$553,868 over the par value of the 60,000 common shares, amounting to \$493,868, was credited to contributed surplus.

535,263 common shares were issued in exchange for all of the outstanding shares of Comtech (Note 1).

9,000 common shares were issued at \$2.50 per share in August 1968 on the exercise of all of the remaining options which had been granted under the Company's stock option plan.

(c) *Deficit*

Changes in the deficit account are reflected in the statement of shareholders' equity. The restated opening June 30, 1968 deficit of \$456,656 reflects miscellaneous prior years' adjust-

ments of \$7,325 and Comtech's opening retained earnings of \$6,711. The subsequent prior years' adjustments of \$95,217 consist of cancellation of accrued interest (Note 9) of \$93,609 and miscellaneous items of \$1,608.

The statement of shareholders' equity has given effect to a transfer of \$280,414 of contributed surplus to eliminate the Fibre deficit account.

(d) *Dividend Arrears*

Dividends on the 5% cumulative preference shares have been paid to June 30, 1954. Arrears of dividends amount to \$33,675 at June 30, 1969 on the 4,490 shares outstanding. Since the Company failed to pay more than three consecutive half-yearly dividends on the 5% cumulative preference shares and more than four consecutive half-yearly dividends on the 3% non-cumulative preference shares, both classes of shares carry voting rights.

(e) *Dividend Restrictions*

Under the terms of the Adjustment Assistance Board's secured debentures (Note 9), the Company will not redeem any of its shares or declare or pay any dividend on any of its shares without prior consent of the Adjustment Assistance Board. With respect to the conversion of preference shares during the year, this consent was specifically obtained.

3. NOTES RECEIVABLE AND INITIAL CHARTERING FEES

The right to the use of the Comtech system is being marketed in the form of franchising areas. Two of such areas, embracing Northeastern and Southeastern United States were sold during the year for \$1,060,000 U.S. funds, of which \$107,000 U.S. has been received to date. The balance is evidenced by notes, receivable over ten years in semi-annual instalments of \$49,000 U.S. with interest at 7½% per annum.

Under the contracts of sale, the franchisees (known as chartered members) are to sell the Comtech system to sub-franchisees (known as chartered associates). Comtech may assume the notes receivable from these chartered associates in place of the notes receivable from the chartered members.

The Company has adopted the policy of taking these initial charter fees into income over a number of years, as to be determined by the collectibility of the notes; the criteria in each case being the performance of the chartered member or associate. In 1969 all the cash received plus \$81,000 U.S. of the notes receivable, a total of \$188,000 U.S. (equivalent to \$202,023 Canadian funds) was taken into revenue. The balance of these notes receivable (\$872,000 U.S.) will be recorded over a number of years as they are credited to income.

The \$81,000 U.S. notes receivable have been translated to Canadian funds (\$86,974) of which \$57,983 is due within one year and \$28,991 is due in fiscal year 1971.

4. ASSOCIATED COMPANY

Comtech acquired an investment in a data centre in February, 1969 and issued 10,800 common shares valued at \$58,320 in exchange for the following securities:

Common shares (49%)	\$ 15,570
7% Cumulative redeemable preferred shares	14,550
8% Subordinated convertible income notes due June 30, 1973	28,200
	<hr/>
	\$ 58,320
Acquisition expenses	2,247
Subsequent transactions	
8¼% Demand note	10,000
Deferred trade accounts receivable	34,976
	<hr/>
Total investment	<u>\$ 105,543</u>

Comtech has guaranteed a bank loan of this associated company amounting to \$30,000.

5. FIXED ASSETS

	1969	1968
Land	\$ 42,840	\$ 42,840
Buildings	529,377	529,377
Machinery and equipment	812,800	791,540
Computer equipment	711,083	158,658
Magnetic tapes	17,253	1,775
Furniture and fixtures	45,677	6,222
Leasehold improvements	18,863	8,278
Vehicles	21,007	21,007
	<u>2,198,900</u>	<u>1,559,697</u>
Accumulated depreciation	617,879	531,991
	<u>\$1,581,021</u>	<u>\$1,027,706</u>

Land and buildings are recorded at appraisal value, October 25, 1965 by R. J. Thurgood, A.T.I.C.S. Additions subsequent to that date are recorded at cost. The appraisal increase is being transferred to retained earnings on a straight-line basis over the estimated useful life of the building. All other assets are recorded at cost.

All assets other than land are depreciated on a straight-line basis over their estimated useful lives. Prior to 1969, the Company did not provide for depreciation on buildings. The 1968 accounts have been adjusted retroactively to record depreciation resulting in a reduction of net income of \$7,500.

6. PREMIUMS INCURRED ON THE ACQUISITION OF SUBSIDIARY COMPANIES

These premiums represent the excess of cost of investment in shares over the book values of the subsidiaries at the dates of acquisition. These shares were acquired by Comtech either for cash or by share exchange offer with a valuation assigned to the common shares. These premiums are not being amortized since management is of the opinion that there has been no diminution of value to date.

7. DEFERRED CHARGES

	Period of amortization	Amortized during year	Unamortized Balance	
			1969	1968
Organization expenses	5 years	\$ 1,535	\$ 93,226	\$ 25,741
Package programs	5 years	7,653	61,812	14,220
Sales development	2 years	—	13,753	—
Computer conversion	10 months	7,500	12,135	—
Bond discount	—	3,667	—	16,667
Other	—	—	3,411	3,866
			<u>\$ 184,337</u>	<u>\$ 60,494</u>

Organization expenses include certain salaries and other expenses incurred up to September 1968 in connection with organizing Comtech's business expansion and legal and audit expenses incurred subsequently for financing purposes. Amortization commenced in June 1969.

Comtech designs and produces its own package programs using its own employees and facilities. The cost includes appropriate amounts of salaries, computer operating costs and administrative overhead. Amortization commences upon completion of each package program for marketing.

The computer conversion costs resulting from the installation of a new computer are being amortized over the period of rental reductions allowed by the supplier of this new computer equipment.

Unamortized bond discount of \$13,000 was eliminated on the conversion of the 7% mortgage bonds.

8. BANK INDEBTEDNESS

Inventories and accounts receivable amounting to \$293,000 have been pledged for bank indebtedness pursuant to Section 88 of the Bank Act.

9. LONG-TERM DEBT

	<u>1969</u>	<u>1968</u>
7% First mortgage, payable \$2,364 monthly including interest to August 1972	\$ 77,741	\$ 99,479
Secured debentures, payable to Adjustment Assistance Board, \$2,000 principal monthly to March 1977; interest payable at the rate of 7½% per annum on \$14,000 and 6% per annum on the remainder	186,000	200,000
7½% Mortgage bonds (principal \$310,000 and accrued interest \$93,609) (Note 2 (b) and (c))	—	403,609
6% Note payable to shareholders (Note 2 (b))	—	100,000
Notes payable on computer equipment (at interest approximating prime bank borrowing rates)		
Monthly principal instalments of \$3,811 to 1973	184,815	118,865
Monthly principal instalments of \$6,122 to 1975	412,530	—
	<u>861,086</u>	<u>921,953</u>
Current maturities	169,773	59,556
	<u>\$ 691,313</u>	<u>\$ 862,397</u>

The debentures payable to the Adjustment Assistance Board are secured by a second mortgage on the land and building and a first fixed and specific charge on specific machinery and equipment. Interest on the mortgage bonds for the fiscal years ended June 30, 1967, 1968 and 1969 were waived in those years. In the current year, the bondholders waived the interest which was accrued to June 30, 1966 in the amount of \$93,609. Accordingly, this amount has been credited to deficit as a prior years' adjustment.

10. INCOME TAXES

Provision for income taxes include deferred income taxes which result from timing differences in recording for book and tax purposes of depreciation, package programs, and other deferred charges.

Income taxes in the amount of \$45,400 in 1969 (\$13,200 in 1968) have been eliminated as a result of utilization of previous years' losses. This elimination has been reflected as an extraordinary item in the statement of income. The unused tax losses approximate \$252,000 and are available to reduce future income tax liabilities.

11. COMMITMENTS

The companies are committed to annual realty and equipment rentals of \$54,000 approximately expiring in various periods up to 1986.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers of the Company (as defined in the Ontario Corporations Act) amount to \$80,251.

